

WAUBONSIE MENTAL HEALTH CENTER

INDEPENDENT AUDITOR'S REPORT
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

YEARS ENDED JUNE 30, 2010 AND 2009

WAUBONSIE MENTAL HEALTH CENTER

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WAUBONSIE MENTAL HEALTH CENTER
Officials
June 30, 2010

<u>Board of Directors:</u>	<u>Address</u>	<u>Term Expires</u>
Glen Benskin, President	Stanton, Iowa	2010
Elaine Armstrong, Vice-President	Clarinda, Iowa	2010
Dawn Hough, Secretary	Clarinda, Iowa	2012
Thomas Clark, Treasurer	Tabor, Iowa	2010
Earl Hendrickson	Hamburg, Iowa	2010
Sharon Yahnke	Sidney, Iowa	2012
Marjorie Pugh	Clarinda, Iowa	2010
Robert Beard (Resigned October, 2009)	Villisca, Iowa	--
Rex Galloway (Appointed January, 2010)	Villisca, Iowa	2013
Kirk Requist	Stanton, Iowa	2011
<u>Executive Director:</u>		
Mary Anne Gibson	Coin, Iowa	

Gronewold, Bell, Kyhn & Co. P.C.

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DAVID A. GINTHER

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Waubonsie Mental Health Center
Clarinda, Iowa

We have audited the accompanying balance sheets of Waubonsie Mental Health Center as of June 30, 2010 and 2009, and the related statements of activities and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Waubonsie Mental Health Center as of June 30, 2010 and 2009, and the results of its operations, changes in net assets, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated October 21, 2010 on our consideration of Waubonsie Mental Health Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information (shown on pages 12 through 14) is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Gronewold, Bell, Kyhn & Co. P.C.

Atlantic, Iowa
October 21, 2010

WAUBONSIE MENTAL HEALTH CENTER
Balance Sheets
June 30,

ASSETS

	<u>2010</u>	<u>2009</u>
Current Assets:		
Cash	\$ 412,433	\$ 223,945
Certificates of deposit	484,149	473,881
Client receivables, less allowances for doubtful accounts and contractual adjustments (\$81,000 in 2010 and \$102,000 in 2009)	95,076	103,149
Other receivables	15,379	61,048
Estimated third-party payor settlements	205,000	242,000
Prepaid expense	<u>440</u>	<u>411</u>
Total current assets	1,212,477	1,104,434
Property and Equipment, Net	<u>76,508</u>	<u>78,439</u>
Total assets	<u>\$ 1,288,985</u>	<u>\$ 1,182,873</u>

LIABILITIES AND NET ASSETS

Current Liabilities:		
Accounts payable	\$ 1,374	\$ 957
Accrued employee compensation	49,877	46,558
Deferred grant revenue	<u>26,550</u>	<u>7,085</u>
Total current liabilities	77,801	54,600
Net Assets:		
Unrestricted	<u>1,211,184</u>	<u>1,128,273</u>
Total liabilities and net assets	<u>\$ 1,288,985</u>	<u>\$ 1,182,873</u>

The accompanying notes are an integral part of these statements.

WAUBONSIE MENTAL HEALTH CENTER
Statements of Activities and Changes in Net Assets
Year ended June 30,

	<u>2010</u>	<u>2009</u>
Support and Revenue:		
Support:		
Support from participating counties	\$ 36,094	\$ 31,549
Grants	95,571	337,949
Total support	<u>131,665</u>	<u>369,498</u>
Revenue:		
Client fees, net	942,522	817,655
Other revenue	15,963	12,438
Total revenue	<u>958,485</u>	<u>830,093</u>
Total Support and Revenue	1,090,150	1,199,591
Expenses:		
Operating expenses	996,716	1,015,150
Provision for depreciation	21,358	17,862
Provision for bad debts	4,199	1,023
Total expenses	<u>1,022,273</u>	<u>1,034,035</u>
Operating Income	67,877	165,556
Other Support and Gains (Losses):		
Interest income	12,504	15,911
Contributions	2,530	9,784
Loss on disposal of assets	--	(47)
Other support and gains, net	<u>15,034</u>	<u>25,648</u>
Increase in Unrestricted Net Assets	82,911	191,204
Net Assets, Beginning of Year	<u>1,128,273</u>	<u>937,069</u>
Net Assets, End of Year	<u>\$ 1,211,184</u>	<u>\$ 1,128,273</u>

The accompanying notes are an integral part of these statements.

WAUBONSIE MENTAL HEALTH CENTER
Statements of Cash Flows
Year ended June 30,

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Cash received from clients, third party payors, and contracting agencies	\$ 985,196	\$ 888,357
Cash paid to suppliers and employees	(993,009)	(1,005,338)
County support received	36,094	31,549
Grants received	158,905	179,994
Interest income	12,504	15,911
Contributions received	2,530	4,070
Other operating revenue	<u>15,963</u>	<u>12,438</u>
Net cash provided by operating activities	218,183	126,981
Cash flows from investing activities:		
Capital expenditures	(19,427)	(48,268)
Additions to certificates of deposit	<u>(10,268)</u>	<u>(313,206)</u>
Net cash used in investing activities	(29,695)	(361,474)
Net increase (decrease) in cash	188,488	(234,493)
Cash beginning of year	<u>223,945</u>	<u>458,438</u>
Cash end of year	<u>\$ 412,433</u>	<u>\$ 223,945</u>

(continued next page)

WAUBONSIE MENTAL HEALTH CENTER
Statements of Cash Flows - Continued
Year ended June 30,

	<u>2010</u>	<u>2009</u>
Reconciliation of change in net assets to net cash provided by operating activities:		
Change in net assets	\$ 82,911	\$ 191,204
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Provision for depreciation	21,358	17,862
Provision for bad debts	4,199	1,023
Donated equipment	--	(5,714)
Loss on disposal of assets	--	47
Change in assets and liabilities		
Accounts receivable	86,543	17,096
Prepaid expense	(29)	41
Accounts payable, trade	417	259
Accrued employee compensation	3,319	9,512
Deferred grant revenue	19,465	(104,349)
Total adjustments	<u>135,272</u>	<u>(64,223)</u>
Net cash provided by operating activities	<u>\$ 218,183</u>	<u>\$ 126,981</u>

The accompanying notes are an integral part of these statements.

WAUBONSIE MENTAL HEALTH CENTER
Notes to Financial Statements
June 30, 2010 and 2009

NOTE A - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES

1. Nature of Activities

The Waubonsie Mental Health Center is an Iowa not-for-profit corporation operating under Chapter 230A of the Code of Iowa and is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The Center is established to provide a comprehensive community mental health program for the diagnosis and treatment of psychiatric and psychological disorders and to promote the prevention of mental illness. The Board includes a representative from the County Board of Supervisors of each of the three counties in the service area (Fremont, Montgomery and Page counties). Each of these members serve an annual term. The six remaining members of the Board of Directors serve three year terms and are selected by the existing Board.

2. Basis of Accounting and Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Revenues are recognized when earned and expenses are recorded when the liability is incurred. Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law.

3. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

4. Client Receivables

Client receivables are shown at the amount expected to be collected from clients and other third-party payors. The allowance for doubtful accounts is based on an aging of all the individual client balances. The allowance for contractual adjustments is based on the difference between the Center's normal fees and expected government program and insurance payments.

WAUBONSIE MENTAL HEALTH CENTER
Notes to Financial Statements
June 30, 2010 and 2009

NOTE A - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued

5. Unrestricted Revenues and Support

- a. Fees from clients are recorded at list price with adjustments based upon ability to pay and government program and insurance limitations deducted to arrive at net fees from clients. Medicaid services are reimbursed based on a cost reimbursement methodology. The Center is reimbursed for these services at a tentative rate with a final settlement determined after submission and review of an annual cost report. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. The Center does not record charges and the related write-off of Supported Community Living Services that are deemed uncollectible. If these charges were recorded, the revenues and the related adjustments would be higher. The amount of unrecorded revenues and related adjustments cannot be determined.
- b. Fees from participating counties are based on the Center's annual budget and are allocated among the counties based on their relative usages and populations.
- c. Grant revenues are for specific programs provided by the Center and are recognized as income when grant requirements have been satisfied.

6. Property and Equipment

Property and equipment is stated at cost. The Center computes depreciation on equipment and vehicles using the straight-line method. Lives range from five to ten years for equipment and leasehold improvements and five years for vehicles.

7. Capital Leases

Leases which meet certain criteria are classified as capital leases, and assets and liabilities are recorded at amounts equal to the lesser of the present value of the minimum lease payments or the fair value of the leased properties at the beginning of the respective lease terms. Such assets are amortized evenly over the related lease terms or their economic lives with the amortization expense being included in the provision for depreciation. Interest expense relating to the lease liabilities is recorded to effect constant rates of interest over the terms of the leases.

8. Charity Care

The Center provides care to clients who meet certain criteria under its charity care policy at amounts less than its regular rates. Revenue from services to these clients is recorded as indicated in 5. above. These reductions are recorded as adjustments to fees from clients.

WAUBONSIE MENTAL HEALTH CENTER
Notes to Financial Statements
June 30, 2010 and 2009

NOTE A - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued

9. Cash and Cash Equivalents

For purposes of the statement of cash flows, the Center considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

NOTE B - THIRD-PARTY PAYOR ARRANGEMENTS

A summary of the payment arrangements with major third-party payors follows:

Medicaid - Certain services are paid based on a cost reimbursement methodology. The Center is reimbursed for the cost of services at a tentative rate with final settlement determined after submission of annual cost reports by the Center and audits thereof by the fiscal intermediary. The Center's Medicaid cost reports have been audited and finalized by the fiscal intermediaries through June 30, 2008. However, finalized cost reports are subject to re-opening by the intermediary.

The Center also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Center under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

NOTE C - PROPERTY AND EQUIPMENT

The cost and related accumulated depreciation by major category at June 30 are as follows:

	<u>2010</u>	<u>2009</u>
Automobiles	\$ 71,781	\$ 60,402
Office Equipment and Leasehold Improvements	<u>213,495</u>	<u>208,290</u>
	285,276	268,692
Less Accumulated Depreciation	<u>208,768</u>	<u>190,253</u>
	<u>\$ 76,508</u>	<u>\$ 78,439</u>

Rent expense for office space under cancelable operating leases totaled \$24,170 for the year ended June 30, 2010 (\$23,983 for June 30, 2009).

WAUBONSIE MENTAL HEALTH CENTER
Notes to Financial Statements
June 30, 2010 and 2009

NOTE D - FUNCTIONAL EXPENSES

Following is a summary of expenses classified by function:

	<u>2010</u>	<u>2009</u>
Client Services	\$ 902,536	\$ 940,346
Management and General	<u>119,737</u>	<u>93,689</u>
	<u>\$ 1,022,273</u>	<u>\$ 1,034,035</u>

NOTE E - RETIREMENT PLAN

The Center offers a 403(b) retirement plan in which the Center contributes five percent of an eligible individual's gross wages, limited to \$40,000, to the plan. All full-time staff with two months of employment and who are over eighteen years of age are included in the plan. Total contributions made by the Center for the year ended June 30, 2010 were \$25,551 (\$22,521 for 2009).

NOTE F - CONTINGENCIES

Risk Management

The Center is insured by a claims-made policy for protection against liability claims resulting from professional services provided or which should have been provided. Management believes that the malpractice insurance coverage is adequate to cover all asserted and any unasserted claims, therefore no related liability has been accrued. Waubonsie Mental Health Center is exposed to various other common business risks for which it is covered by commercial insurance. Settled claims from these risks have not exceeded insurance coverage for the past three years.

Economic Dependency

The Center received approximately 33 percent of its total support and revenue from Fremont, Montgomery and Page counties in 2010 (25 percent in 2009).

Subsequent Events

The Center has evaluated all subsequent events through October 21, 2010, the date the financial statements were available to be issued.

WAUBONSIE MENTAL HEALTH CENTER
Notes to Financial Statements
June 30, 2010 and 2009

NOTE G - CONCENTRATION OF CREDIT RISK

The Center grants credit without collateral to its clients, most of whom are area residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at June 30, 2010 and 2009, was as follows:

	<u>2010</u>	<u>2009</u>
Medicaid	49%	53%
Other third-party payors and patients	<u>51</u>	<u>47</u>
	<u>100%</u>	<u>100%</u>

* * *

SUPPLEMENTARY INFORMATION

WAUBONSIE MENTAL HEALTH CENTER
Revenues and Support
Year ended June 30,

<u>Client Fees</u>	<u>2010</u>	<u>2009</u>
Self Pay and 3rd Party Insurance	\$ 321,874	\$ 255,276
Title XIX	765,277	615,330
Counties	<u>285,508</u>	<u>269,683</u>
Gross Client Fees	1,372,659	1,140,289
Less Contractual Adjustments	<u>430,137</u>	<u>322,634</u>
Net Client Fees	<u>\$ 942,522</u>	<u>\$ 817,655</u>

Support from Participating Counties

Fremont	\$ 4,500	\$ 1,200
Montgomery	28,775	28,775
Page	<u>2,819</u>	<u>1,574</u>
	<u>\$ 36,094</u>	<u>\$ 31,549</u>

See Independent Auditor's Report.

WAUBONSIE MENTAL HEALTH CENTER
Operating Expenses
Year ended June 30,

	<u>2010</u>	<u>2009</u>
General Operating Expenses:		
Administrative salaries	\$ 22,182	\$ 8,158
Therapists salaries	367,277	275,250
Clerical salaries	117,821	102,476
Psychiatric consultation	71,202	73,395
Employee benefits	101,168	69,635
Payroll tax expense	43,778	40,146
Audit and accounting fees	11,104	8,975
Attorney fees	650	--
Other professional fees	13,374	13,040
Office supplies	8,959	9,969
CSP program expenses	2,788	1,807
Telephone	8,022	7,060
Emergency communication	3,324	4,008
Postage and shipping	6,289	6,280
Rent expense	24,170	23,983
Building repairs and maintenance	3,529	3,282
Insurance expense	12,626	11,688
Utilities	4,236	4,211
Travel expense	18,104	15,682
Agency vehicle expense	9,597	9,215
Staff development and training	3,462	2,442
Subscriptions	62	212
Organization dues	2,537	1,007
Equipment repairs and maintenance	1,246	854
Advertising	3,584	4,789
Medication expense	1,486	1,794
Miscellaneous	6,519	1,577
	<u>869,096</u>	<u>700,935</u>
Community Mental Health Services Grant Expenses -		
Adults:		
Salaries	13,076	6,412
Employee benefits	1,003	4,115
Travel expense	1,468	1,749
Other expense	795	--
	<u>16,342</u>	<u>12,276</u>
Recovery Project Grant:		
Salaries	39,764	109,519
Employee benefits	3,777	9,710
Travel expense	4,998	14,753
Other expense	1,241	7,402
	<u>49,780</u>	<u>141,384</u>

(continued next page)

WAUBONSIE MENTAL HEALTH CENTER
Operating Expenses - Continued
Year ended June 30,

	<u>2010</u>	<u>2009</u>
Community Mental Health Services Grant Expenses -		
Children & Adolescents:		
Salaries	\$ 12,757	\$ 6,050
Employee benefits	977	3,242
Travel expense	1,173	656
Other expense	<u>1,437</u>	<u>1,380</u>
	16,344	11,328
School Based Services Grant:		
Salaries	--	41,335
Employee benefits	--	11,224
Travel expense	--	2,814
Other expense	<u>--</u>	<u>5,081</u>
	--	60,454
Peer Support Services Program Expenses:		
Salaries	12,760	46,945
Employee benefits	992	6,153
Travel expense	868	3,107
Other expense	<u>12,774</u>	<u>20,071</u>
	27,394	76,276
Crisis Aversion Project:		
Salaries	1,650	--
Other expense	<u>1,803</u>	<u>--</u>
	3,453	--
Supported Employment Grant:		
Salaries	1,220	--
Employee benefits	380	--
Other expense	<u>929</u>	<u>--</u>
	2,529	--
Trauma Informed Care Grant:		
Salaries	500	--
Transitional Living Program Expenses:		
Housing	8,520	9,319
Other expense	<u>2,758</u>	<u>3,178</u>
	11,278	12,497
	<u>\$ 996,716</u>	<u>\$ 1,015,150</u>

See Independent Auditor's Report.

COMMENTS AND RECOMMENDATIONS

Gronewold, Bell, Kyhnn & Co. P.C.

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Independent Auditor's Report on Internal Control over Financial Reporting
and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Board of Directors
Waubonsie Mental Health Center
Clarinda, Iowa

We have audited the financial statements of Waubonsie Mental Health Center as of and for the year ended June 30, 2010, and have issued our report thereon dated October 21, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Waubonsie Mental Health Center's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Waubonsie Mental Health Center's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses, and, therefore, there can be no assurance all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Center's financial statements will not be prevented or detected and corrected on a timely basis.

To the Board of Directors
Waubonsie Mental Health Center

A significant deficiency is a deficiency or combination of deficiencies in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part I of the accompanying Schedule of Findings as item 10-I-A to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Waubonsie Mental Health Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards.

Waubonsie Mental Health Center's response to the finding identified in our audit is described in the accompanying Schedule of Findings. While we have expressed our conclusion on the Center's response, we did not audit the Center's response and, accordingly, we express no opinion on it.

This report, a public record by law, is intended solely for the information and use of the officials, employees and constituents of Waubonsie Mental Health Center and other parties to whom the Center may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

Gronwald, Ben, Kyhn & Co. P.C.

Atlantic, Iowa
October 21, 2010

WAUBONSIE MENTAL HEALTH CENTER
Schedule of Findings
Year ended June 30, 2010

PART I - SIGNIFICANT DEFICIENCIES

10-I-A Segregation of Duties: A limited number of people have the primary responsibility for most of the accounting and financial duties. As a result, some of those aspects of internal accounting control which rely upon an adequate segregation of duties are, for all practical purposes, missing in the Center. This deficiency is common among most small organizations.

Recommendation: We recognize that it may not be economically feasible for the Center to employ additional personnel for the sole purpose of segregating duties, however, it is our professional responsibility to bring this control deficiency to your attention. We recommend that the Board be aware of the lack of segregation of duties and that they act as an oversight group to the accounting personnel.

Response: The Board is aware of this lack of segregation of duties, but it is not economically feasible for the Center to employ additional personnel for this reason. The Board will continue to act as an oversight group.

Conclusion: Response accepted.

* * *